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## China and Market Socialism: A New Socioeconomic Formation

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### ABSTRACT

The aim of this paper is to demonstrate that the sustained growth of the state sector in the Chinese economy shows that Chinese model is very different from state capitalism, even more from liberal capitalism. In our view, China's market socialist system can be interpreted as classified as a "New Socioeconomic Formation" (NSEF). The most important attribute of the NSEF is complexity, as it is marked by the coexistence of different modes of production. China's market socialism is still in its embryonic stage, and is governed by an ever-evolving combination of different modes and relations of production. In this framework, some basic *laws of motion* of China's socialist market economy can be identified.

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## 1. Introduction

China's development is perhaps the most important phenomenon in the world today. The country's average growth of the Gross Domestic Product (GDP) in the last 35 years was 9.5% per annum, while per capita income in the period went from US\$250 in 1980 to US\$9040 in 2014 (Jabbour and Paula 2018, 14). In view of this, China's growth—and the very nature of its system—has been the subject of varying degrees of controversy.

Among other elements, the polemic is not about the "model" itself, but the fact that, this process takes place denying the *deus ex machina* that conditions economic dynamism to the existence of institutions that guarantee the primacy of private property.<sup>1</sup> On the contrary, one of its specificities is—for example—the existence of a state that takes on the role of "both the lender of last resort and the investor of first instance" (Burlamaqui 2015, 737).

The aim of this article is to develop the following argument:

A broad advance of the private sector in the economy does not preclude the formation of a new and powerful state sector, notably from the 1990s. In theory, this means that the Chinese ownership structure is still very different from other parts of the world. This process is directly reflected in a continuous increase, since the second half of the 1990s, of the government control over national income flows: from 13.5% of GDP in 1996 to 37.3% in 2015. (Naughton 2017, 5; Jabbour and Paula 2018, 17)

The above quote demonstrates the interesting and recent upward trend in the role of the state over the Chinese property structure. In the wake of this observation, recent work<sup>2</sup> has demonstrated the significant difference between the ownership structure in China compared to other parts of the world (large state-owned conglomerates, mixed-capital companies, share ownership). This process is evidenced in the continuous expansion, since the second half of the 1990s, of government control over national income flows (Jabbour and Dantas 2018). This trend is also observed in the fall of the private sector investment rate (from 34.8% of total investments in 2011 to 2.8% in June 2016). The profits of state-owned enterprises grew from 15.2% (liquid net worth) in 2016 to 23.5% in 2017 (Center for Macroeconomic Research at Xiamen University 2018).

Bearing that in mind, our work seeks to demonstrate that the recent phenomenon marked by greater state leadership, especially after 2009, allows us to diagnose that the “Chinese dynamics” is something that distances itself, as much as from a kind of “liberal model” as it does from a “state capitalism,” in the *strictu sensu*. In our view, a New Socioeconomic Formation (NSEF) is emerging in China that we call “market socialism.” In other words, “market socialism” has thus ceased to be an abstraction, becoming something real, *concrete*.

On a related note, substantiating the observation about the rise of state protagonism post-2009 is the US\$589 billion investment package, mediated by the state financial system and executed—essentially—by state-owned enterprises. This reach of Chinese state power is also evident, for example, in the implementation of the “New Silk Road”: basically financed and executed by Chinese state-owned banks and enterprises.

As to the aforementioned, the original character of the present work lies in the finding that this NSEF that is arising in China has a complex nature, that is, it involves the coexistence (and combination) of distinct modes of production. The great intellectual challenge that we are proposing in this article is to understand the nature of that coexistence and cohabitation of different modes of production in the same social formation and how this dynamic gives unique features to a process whose essence still demands research and understanding. We will also try to advance in some logics of functioning as a way of providing greater consistency to the central argument. In fact, the very essence of the argument suggests the demonstration of the operating logics that give this NSEF its own outlines. The intention of this article is, therefore, to provide an important step forward in the aforementioned search and understanding of the essence of the Chinese phenomenon, using an unconventional theoretical/methodological approach, an approach not even found among Marxists in general.

In addition to this introduction, the article is divided into five sections. In section 2, the category of Socioeconomic Formation (SEF) will be exposed as an indispensable element of theoretical validation. The use of this category not only serves to go beyond the surface of the nature of the ongoing process in China, but also aids in differentiating our work from the dominant schools in the debates surrounding the characteristics of the phenomenon in question. In section 3, we will present our particular interpretation of socialism, while also presenting alternative arguments that suggest a correction to the central thesis of this article. In section 4, we will demonstrate the five general logics of both historical development and the very functioning of the Chinese economy. In section 5, we seek to counter some common arguments involving, since the construction of socialism, even its conception in face of the classical founders of historical materialism. At the end, we will present some conclusions.

## 2. Market Socialism: Episteme and the Criteria of Theoretical Validation

The central point of our discussion is not to answer whether China is, according to its constitution and leaders, a socialist state or, it is—in the most generous value judgment—an *Asian variant of state capitalism*. In this regard, unfortunately, the mainstream opinion for what is occurring in China is a “capitalist restoration” in the form of “state capitalism.” It is not surprising that an author of David Harvey’s stature, who puts Deng Xiaoping on the same neoliberal pedestal as Reagan and Thatcher, still notes that “the spectacular emergence of China as a global economic power after 1980 was in part an unintended consequence of the neoliberal turn in the advanced capitalist world” (Harvey 2005, 121).

This is a typical observation of a ready, model and photographic scheme of reality that aligns closely with postmodern relativism to the detriment of the historical objectivity characteristic of analyses based on historical materialism (Jabbour 2012, 78). In fact, in the debate of ideas, we find ourselves in a different camp than the current mainstream postulates of the social sciences—including classical positivism, which expresses itself in the form of “a certain postmodern intellectual fad—which conceives social theory as a mere narrative with a moral purpose” (Fernandes 2000, 17). Therefore, “[...] the theory and practice of relativism are placed at the heart of the process of construction of human subjectivity, as the guiding compass of the theory of knowledge” (Jabbour 2012, 81).

For our part, we believe that objectivity and, consequently, the view of the historical process are still the essential criteria of theoretical validation.

Moving forward, within the epistemological framework set out above, if we accept that China, and its “market socialism,” is a complex social formation, for Harvey, for example, it serves the relationship made by Marx between the development of geological formations and the development process of society, as suggested in a letter sent to Vera Zasulich:

The archaic or primary formation of our globe itself contains a series of layers from various ages, the one superimposed on the other. Similarly, the archaic formation of society exhibits a series of different types [which together form an ascending series], which mark a progression of epochs. The Russian rural commune belongs to the most recent type in this chain. Already, the agricultural producer privately owns the house in which he lives, together with its complementary garden. This is the first element unknown to older types which dissolves the archaic form [and which may serve as a transition from the archaic form to]. (Marx [1881] 2017, 17)

A diagnostic typology requires solid theoretical and conceptual foundations. Thus, our main element of theoretical validation resides in a poorly understood concept, which consequently results in problems related to the very questions of theoretical validation. We are referring to the SEF concept. The term SEF was used for the first time in Marx’s writings in the Preface to *A Contribution to the Critique of Political Economy*:<sup>3</sup>

In broad outlines Asiatic, ancient, feudal, and modern bourgeois modes of production can be designated as progressive epochs in the economic formation of society. The bourgeois relations of production are the last antagonistic form of the social process of production—antagonistic not in the sense of individual antagonisms, but of one arising from the social conditions of life of the individuals; at the same time the productive forces developing in the

womb of bourgeois society create the material conditions for the solution of that antagonism. This social formation brings, therefore, the prehistory of society to a close. (Marx [1859] 2008, 48)

According to Sereni, it is in Lenin that a true “restoration” of the meaning of the SEF category occurs, as we can see:

It is, in summary, on the part of the biggest exponents of the “Marxism of the International II,” the total incomprehension (if not, then the systematic rejection) of one of the fundamental categories of the Marxian materialist conception of history; and when one considers the fact that similar observations could be made for most of the other exponents of the same “Marxism of the International II”—with the only two significant exceptions, if we are not wrong, being Antonio Labriola and Franz Mehring—the central importance that Lenin gives, since his first works, to this notion of social-economic formation will appear better, assuming that there is value in a true restoration, not only in this field, but in the theory and practice of revolutionary Marxism, not to mention its further deepening. (Sereni [1971] 2013, 314)

According to Silva (2012, 1), the SEF concept has in Emilio Sereni “its most complete and richest understanding,” citing the following passage from Sereni:

[...] the notion [...] is placed unequivocally on the plane of history, which is [...] the totality and unity of all spheres (structural, supra-structural, and others) of social life in the continuity and at the same time in the discontinuity of its historical development. (Sereni [1971] 2013, 316)

Althusser and Balibar discuss this category on two levels. The first, which follows, is closer to an outline for the construction of a “theory of historical time.” According to them:

Theory of historical time that allows to establish the possibility of a history of the different levels considered in their “relative” autonomy. [...] the form of historical existence peculiar to a social formation arising from a determinate mode of production. (Althusser and Balibar 1970, 104)

They also reach a clearer and more coherent definition of the SEF concept (Althusser and Balibar 1970, 209), being the “totality of instances articulated on the basis of a determinate mode of production.”

Now to relate the given observations of Marx, Althusser, Balibar and Sereni to the use of the SEF category as an instrument of theoretical validation, the words of Roberts are relevant, which in a recent article, one can read the following:

This brings us to the question of whether China is a capitalist state or not? I think the majority of Marxist political economists agree with mainstream economics in assuming or accepting that China is. However, I am not one of them. China is not capitalist. Commodity production for profit, based on spontaneous market relations, governs capitalism. The rate of profit determines its investment cycles and generates periodic economic crises. This does not apply in China. In China, public ownership of the means of production and state planning remain dominant and the Communist party’s power base is rooted in public ownership. (Roberts 2017)

The basis of the reasoning that drives most Marxists to align with the brash economists of our times (the neoclassicals) who assume positions based on static models and for whom China is a capitalist country lies in this static treatment: a desire to classify and

demarcate phenomena within previously accepted frameworks and categories. Hobsbawm is more acute in affirming:

[...] the desire to classify every society or period firmly in one or another of the accepted pigeon-holes has produced demarcation disputes, as is natural when we insist on fitting dynamic concepts into static ones. Thus there has been much discussion in China about the date of the transition from slavery to feudalism [...]. In the West a similar difficulty has led to discussions about the character of the centuries from the fourteenth to the eighteenth. (Hobsbawm 1985, 63)

This is exactly the point: the static and the dynamic levels of analysis are being mixed up, and the result is a misleading interpretation of history. In the reality of the modes of production, we must follow the path suggested by Ignacio Rangel to realize that the degree of complexity of a society—where his famous expression “contemporaneity of the non-contemporary”<sup>4</sup> (Rangel [1957] 2005, 498) is a general rule—requires us to engage in the difficult search only for that which is essential, necessary.

As Lenin has done at his time, it is necessary to go beyond the mode of production concept. In the words of Sereni:

What was it that most of the “Marxists of the International II” had [...] falsified and that Lenin restored, deepened and developed in the Marxian notion of social-economic formation? The most reliable material to answer that question is offered to us by Lenin himself, who from his first works—in his essay Who Are the Friends of the People? written and published in 1894—begins to place not only the notion, but also the term social-economic formation at the heart of a fundamental category of historical materialism, just as Marx had done. It was emphasized [...] that this category expresses the unity (and, we will add, the totality) of the different economic, social, political and cultural spheres of the life of a society, and expresses it, moreover, in the continuity and at the same time in the discontinuity of its historical development. (Sereni [1971] 2013, 314)

We classify the People’s Republic of China as a society led by a political force determined to make the transition to socialism, which does not mean—in any way—recognizing the present economic order as socialist. Samir Amin reminds us very well:

Mao described the nature of the revolution carried out in China by its Communist Party as an anti-imperialist/anti-feudal revolution looking toward socialism. Mao never assumed that, after having dealt with imperialism and feudalism, the Chinese people had “constructed” a socialist society. He always characterized this construction as the first phase of the long path to socialism. (Amin 2013, 35)

An interesting example of a totalizing analysis can be seen in the following passage where Mamigonian recognizes in the “Marxism of Mao Tse-tung” the consequence level that can provide a good use of the categories of historical materialism for a complex social formation. In his words:

Unlike Soviet Marxism, the heir to Western Marxism, brilliantly adapted by Lenin to the conditions of Russian society and the nascent world imperialist stage, Mao’s Marxism, adopting Leninism, was characterized by an obsessive and deep concern for the destinies of China, which needed to be free of any foreign domination, including the Communist International, in order to regain its former greatness which meant restoring the crucial role of peasants in Chinese life, as Li Dazhao taught to his disciples. (Mamigonian 2008, 53)

The reasoning developed above is complemented as follows:

Concern about the fate of China allowed for: (1) the removal of the CI from the command of the Chinese revolution (1935); (2) an alliance with Kuomintang to combat the Japanese invasion (1937–45), making the CCP the main depository of national interests; (3) the military offensive in the 1946–49 civil war against Kuomintang, supported by the USA; (4) the decisive participation in the Korean War (1950–53), [...]; (5) the rupture of China's relations with the Soviets (1960); and (6) closer ties with the USA (1972), which guaranteed the reinsertion of China into the world economy, managed under the leadership of Deng Xiaoping in the 1980s. (Mamigonian 2008, 70)

### 3. Market Socialism

Samir Amin and Armen Mamigonian help us to clarify that the synonym that upholds the perception of market socialism as a complex social formation is to assume, according to Ignacio Rangel's proposal, that we are treating the unit of analysis as a *complex social formation*. This means that market socialism is a formation that associates—via coexistence and cohabitation—the modes of production from different historical periods in a dialectic unity of opposites. It is not a structured society at the highest level possible of human development, that is to say, socialism at its fullness. From the process described by Amin and Mamigonian to today, China has gone through an entire historical process that is, with the economic reforms initiated in 1978, a typical process that combines continuity and rupture.<sup>5</sup>

The question arises: which mode of production is dominant? The answer demands the interposition of other questions: which class and/or political force has control over objectively strategic factors, be it *political* (the political force representing the social class that exercises control of state power) or *economic* (the mode of production that holds the *real* power both over the fundamental tools of the accumulation process—interest, exchange rate and the state financial system—and in promoting the relocation and concentration of the productive sector itself in key industries and enabling growth and development from the generation of industrial chain effects to other modes of production)? To answer this, we offer the following passage:

The socialist foundation of China's economic system is the unconditional supremacy of the Chinese Communist Party. Consistent with Marxist-Leninist tradition, the Party directs the law. Regulations, laws, and administrative rulings are applied in accordance with current Party policy. Just as a Party position corresponds directly to each key position in government, a Party hierarchy parallels corporate governance in banks, SOEs, listed non-SOEs, hybrid enterprises, joint ventures, and sufficiently large private businesses. Party cells throughout business enterprises constitute parallel internal accountability systems to those established by enterprises themselves, keeping an enterprise's Party Secretary and Party Committee up-to-date and able to provide timely advice to its CEO and board. Imported corporate governance regulations, mandating independent directors and the like essentially ignore Party involvement in enterprise governance. (Fan, Morck, and Yeung 2011, 11)

On the other hand, there is a big difference between classifying China as a capitalist country and recognizing that capitalism, whether it be private or state, exists in the country as an important—and powerful—*mode of production*,<sup>6</sup> along other ones.

In this regard, making the transition in a *complex social formation* like the Chinese one means recognizing that the *dialectic unity of opposites* mentioned above is expressed in the coexistence of the following *modes of production*:<sup>7</sup>

- (1) Natural subsistence economy: this structure, despite being in rapid decomposition, still concentrates all of the Chinese population that lives below the poverty line. Most of this structure is made up of ethnic minority groups. However, an absolute number on population living in extreme poverty is unclear.<sup>8</sup>
- (2) Small commodity production: This is characterized by small-scale (family) agricultural production aimed at the market. Although mainly found in medium-sized cities, it is very common to see this sector on the outskirts of large cities. Despite advances in mechanization of agricultural production in China, there is an estimated 300 million farmers in this sector<sup>9</sup> in 2012.
- (3) Private capitalism: This sector was formed and guided under the wings of the Chinese Communist Party (CCP). The existence of this *social structure/formation* in China is the cause of much exaggeration and huge misunderstandings about its power and role in the Chinese economy and society in general. A good indication of this tendency can be seen as: “privatizations and the initial public offerings of state-owned enterprises and collectives in the mid-1990s initiated the first massive movement of capital concentration into private hands in China” (Nogueira 2018, 7). Despite concentrating a large share of wealth and income, the capitalist class in China is unable to become the “dominant class” as the one in capitalist countries is able to do.
- (4) State capitalism:<sup>10</sup> This is a formation with visible lines in the dependency relations of private capitalism and state policies, for example, as a beneficiary of the chain effects generated by state-owned enterprises, in the access to credit in state banks, etc.
- (5) Socialism: This is a social formation that defines the very nature of the National State of China. The Chinese Communist Party has the political force that controls the state, which in turn has control over *objectively strategic* factors. The following quote explains this well:

State-owned and state-holding enterprises are now less numerous, but much larger, more capital- and knowledge-intensive, more productive and more profitable than in the late 1990s. Contrary to popular belief, especially since the mid-2000s, their performance in terms of efficiency and profitability compares favorably with that of private enterprises. The state-controlled sub-sector constituted by state-holding enterprises, in particular, with at its core the 149 large conglomerates managed by SASAC, is clearly the most advanced component of China’s industry and the one where the bulk of in-house R&D activities take place. (Gabriele 2009, 17)

The development process does not happen on impulse, or it at least rarely does. Much less is it a process of “balanced development” as Rosenstein-Rodan (1943) intended to show us in their famous and pioneering works on *external economies* and *balanced growth*. Ignacio Rangel and Albert Hirschman were excellent critics of this conception. For them, the process of development is a process not of jumping from one point of equilibrium to another, but in the way the jumping happens between points of imbalances. In the words of Rangel:

People can get a little romantic idea about the economic development, as if it were a haven of stability, well-being and peace. It is necessary to abandon these illusions immediately. In Brazil, as in all countries, development is a painful process, full of privations, conflicts and concerns. Such concerns are, it seems, raw material for development [...]. A developing

economy cannot solve a problem without creating an even bigger one. It jumps uninterruptedly from one imbalance to another. (Rangel [1981] 2005, 41)

The above explanation fits perfectly with the development process in a complex social formation, as we have already demonstrated about China. Different modes of production, of which each represents a specific stage of the development of humanity itself, require the existence of *elements of mediation* between the different dynamics and respective velocities and movements characteristic of each *social structure/formation*. These are:

- (1) Natural/subsistence economy: which is in an accelerated process of collapse;
- (2) Market economy: where the private economy of various sizes coexists and competes with each other, from small commodity production to large scale production of the capitalist type. However, unlike in other capitalist market economies, in this *market* the large state-owned business conglomerates and the state financial system predominate, which, in turn, can be considered the *heart* (the 149 state-owned business conglomerates) and the *soul* (the state financial system) of the NSEF (market socialism);
- (3) Foreign trade: under socialism, foreign trade is a “public, planned and state institution” (Jabbour and Dantas 2017, 794). It is where a new type of relations prevails with regard to foreign trade of the capitalist type. It is where—also with the objective of demonstrating the impacts of certain movements in the Chinese transition—the role of commercial, political and financial replacement in the world by China should be listed. Projects such as the New Silk Road and the fact that China is already the largest net creditor in the world are few examples which show that China’s growth and transition has greatly affected the world.<sup>11</sup> These are recent movements that deserve mention because they demonstrate that not only is China in an internal process of growth and transition, but that its transition has also greatly affected the world.

#### **4. The Political Economy of “Market Socialism”: The Logic that Governs Its Movement**

It is not our intention to deny that the theoretical construction we are trying to build is part of a criticism of the *stagism* that prevailed in, and still influences, Marxist elaborations on the transition from *capitalism* to *socialism*. Indicating “market socialism” as a new SEF is not just part of an effort to unravel the logic that governs the construction of socialism in complex social formations.

This same reasoning applies to our reading of “market socialism”: an effort to understand China and discover the *fundamental logic of its process of development*. Our quest is thus to adapt *historical materialism* to the peculiarities of a *complex social formation*, such as that of China.

Having exposed these intentions and being clear that we are dealing with a complex social formation, the next step is to extract the operating logic of the Chinese economy. “Market socialism” is, in fact, the answer; it is, for all intents and purposes, a “method of analysis,” which we apply to these and other questions that arise. This is our own

particular interpretation of the reason for and the significance of the development of the productive forces occurring in China, whose counterpart is the political power exercised by the Chinese Communist Party.

Now it is fair to ask: what is the difference between “market socialism” and capitalism, since the existence of a large public sector can also occur under capitalism? We will use the passage below to shed some light on this:

The State is endowed with a high degree of direct and indirect control of the means of production, and, as a result, social production relations are different from those prevalent in capitalism. This statement implies that, at a lower level of abstraction, a “market socialist” and a capitalist system differ essentially in two key aspects. The first one is that in a market socialist system the role of the State is both quantitatively larger and qualitatively superior, thereby allowing the public sector as a whole to exert an overall strategic control over the country’s development path, especially in crucial areas such as setting the economy-wide rate of the accumulation and determining the speed and direction of technical progress. The second difference is that in a market socialist system, although capitalists endowed with private ownership rights on some means of production do exist, they are not strong enough to constitute a hegemonic and dominant social class, as it happens in “normal” capitalist countries. (Gabriele and Schettino 2012, 32)

Realizing that in China several historical modes of development coexist, it led us to try to discover how the logics of the various contemporary modes of production are articulated, aid or limit each other. Forty years after the beginning of the reform and opening process in China, it is already possible to identify at least five operating logics. They are as follows:

- (1) The Chinese social formation is made up of several different modes of production, each one working according to its own. These diverse modes of production coexist in conflict and exert pressure on each other, and are relatively open to reciprocal interaction.

For example, the expansion of the market economy puts pressure on and imposes the tendency toward the disappearance of the *natural subsistence economy*; *the same pressure occurs on small commercial production when agriculture is transformed into a branch of industry*. The same also occurs between the *socialist sector* of the economy and the *private capitalist sector*, with the latter being pressured in face of the trend of increasing centralization of large industrial production in the 149 state-owned business conglomerates and the aforementioned process of continuous increase in government control over national income flows.

- (2) The law of value is not a simple aspect to overcome under “market socialism,” even though it is part of the initial historical process of building socialism.<sup>12</sup> We believe that this observation is essential for those who, like us, are concerned about the limits of economic planning in social formations where segments of private capitalism are not only present, but also exert pressure on the dominant formation (socialism).<sup>13</sup>
- (3) First, we identified that the economic reforms permitted the emergence of a large private sector coexisting with the pre-existing state sector. To us, this cohabitation demands “a continuous reorganization of activities between the state and private

sectors of the economy" (Jabbour and Dantas 2017).<sup>14</sup> This diagnosis was furthered by including that this continuous reorganization of activities is mediated by the cyclical emergence of institutions that delimit the continuous reorganization of activities between the state and private sectors of the economy (Jabbour and Paula 2018).<sup>15</sup>

(4) There is a regularity in this cyclical process of the reorganization of activities between the two sectors. The growth of the private sector does not occur at the expense of a decrease in the role of the state. There is a concrete, strategic replacement of the state. The following highlights this:

The Chinese reaction to the 2008 crisis demonstrated the existence of a process characterized by the construction of a state that harnesses the capacity to both manage policies for the socialization of investment and act as that of an investor and lender. It did not just dispense with the concomitant private sector. It went further, promoting relocation and concentration of its own productive sector in key industries, which combine high productivity with large returns to scale. (Jabbour and Paula 2018, 8)

The private sector, far from being the protagonist of the process, is nothing more than an ancillary sector of the state enterprises.<sup>16</sup>

(5) It is generally understood that periods of crisis alternating with periods of growth can be considered a permanent condition of a capitalist economy. Historically, alternatives to solve this cyclical instability have already been devised: in capitalism, it is through public spending, and in socialism, the cycle is confronted from the perspective of planning,<sup>17</sup> along with its tools and mechanisms. For this reason, planning has justification as an essential economic logic in market socialism.<sup>18</sup>

## 5. Socialism: Confronting Common Sense and the “Dialectic of Saturn”

It is not difficult to see that common sense has successfully projected a version of China as a capitalist country. Aside from pejorative value judgments amplified by mainstream media, this view represents the tragicomic interests of *imperialism*. We are fully aware of the little adherence our view has to that process. Some considerations are important.

We know that it is not an easy task to propose the construction of a theory as a subsidy capable of explaining this “market socialism” entirely, especially in a world in full transformation. It also does not help that at the core of this transformation, there is a new type of SEF, whose host country is very close to becoming the leader of a new center of the system that is moving from the North Atlantic to East Asia.

To be clear, it is the country with the third largest territorial size, and also the most populous in the world, which advocates the socialist character of its experience, and is starting to play its cards in the world system. With that in mind, let us return to the controversy over the Chinese socialism, a controversy that tends to extend over at least the next decade. The lack of insight of the historical process is part of the problem. This is why it is good to remember:

Just as the feudalism-capitalism transition took centuries, [. . .], so has the capitalism-socialism transition been going on for centuries. The germs of capitalism in the Italian and Spanish cities (13th and 14th centuries) were not enough and it was only much later that capitalist relations of production in England were strong enough to break through the feudal

shell (Puritan Revolution) [...]. Clearly, when Marx and Engels imagined the victory of the revolution happening simultaneously in England, France and Germany, of creating a world socialist nucleus around which the other countries could revolve and join in (including Russia, with its egalitarian agrarian base), it was based on the 1848 revolutions that shook Europe [...]. But reality proved to be different, since when the world revolutionary conjuncture of 1917–1923 happened, only in Russia did the revolution succeed, in part thanks to Lenin's ideas, which managed to push forward radical Marxist thinking. (Mamigonian 2001, 7)

Since its emergence, differences of opinion and of conception about the nature of socialism were already visible. These ranged from Lassalle (on the “right”), Blanqui (on the “left”) and Marx, whose overall view led him to adopt more centrist positions. It is no wonder that the same occurs when it comes to the subject of China, as also frequently happened in relation to the Soviet Union. These divisions of opinion can be explained as follows:

The dialectic on the basis of which “Saturn devours his children” is certainly not a characteristic exclusive to the October Revolution: the consensus that presides over the overthrow of an old regime, a regime that became disliked by the majority of the population, inevitably cracks or disperses the moment it comes to deciding on the new order to establish. This is also true of the English and American Revolutions. (Losurdo 2010, 47)

Socialism raises expectations of the messianic type. This is the source from which the “dialectic of Saturn” acts violently. It is not uncommon to relate socialism to the expression of a society where contradiction disappears, taking with it social inequalities, the monetary economy, and the boundaries between “mine” and “yours.” Regarding China, “market socialism” within a Talmudic view is synonymous with a “betrayal” of the principles of Marxism. In this case, the “dialectic of Saturn” is expressed in the confusion between those who perceive the market economy as a historical category and those who place an equal sign between the market and capitalism. The extremely common egalitarianism found in the communist movement leads to the reduction of Marx as one more thinker of the social issue or, at most, a lesser Ricardian.

Returning to our main argument, in the *Communist Manifesto*, Marx and Engels remind us that “nothing is easier than to cover Christian asceticism with a socialist varnish” (Marx and Engels [1848] 1998, 35). Egalitarian notions must be challenged in this task we propose of building a new theory. In line with this, the following passage from Losurdo is interesting and essential:

In The Phenomenology of the Spirit, Hegel highlights the aporia contained in the idea of material equality that is at the foundation of the claim for the “communion of goods.” When an equal satisfaction of the different needs of individuals is put into practice, it is clear there is an inequality in relation to the “share of participation,” that is, the distribution of goods; if, however, there is an “equal distribution” of goods, then it is clear that the “satisfaction of needs” becomes unequal in individuals (always different). (Losurdo 2010, 57–58)

It is evident, therefore, that the “promise” of material equality contained in the notion of the “communion of goods” is impossible. Losurdo gives the consequence of this point in the following:

Marx, who knew Phenomenology very well, solves the difficulty (in the *Critique of the Gotha Program*) corresponding to the two different ways of rejecting “equality” (which is always

partial and limited) with two different states of development in the post-capitalist society: in the socialist stage, the distribution according to an “equal right,” that is, giving equal measure to the work provided by each individual citizen and always more different, produces an evident inequality in remuneration and income; in this sense, the “equal right” is nothing more than the “right of inequality.” In the communist stage, the equal satisfaction of different needs also involves an inequality in the distribution of resources, except that the enormous development of the productive forces, satisfying the needs of all equally, makes such inequality unimportant. (Losurdo 2010, 58)

We can draw two conclusions from the above passages: (1) in socialism, material equality is not possible and (2) in communism, this “material equality” is meaningless. This is why the founders of scientific socialism emphasize the commitment of workers to the development of productive forces.

As a summary of what we discussed about socialism, we end this section with the following quote:

The proletariat will use its political supremacy to wrest, by degree, all capital from the bourgeoisie, to centralise all instruments of production in the hands of the State, i.e. of the proletariat organised as the ruling class; and to increase the total productive forces as rapidly as possible. (Marx and Engels [1848] 1998, 56)

## 6. Conclusions

In this article, we argue that (notably after 2009) in China there is a marked trend towards an increasing role of the state in the process of accumulation. This trend consolidates the market socialist nature of China’s NSEF. As stated in the introduction, it is a process of increasing state control over income flows in the country that has been taking shape since the second half of the 1990s. In fact, the Chinese state controls about 30% of the national wealth, a level much higher than that presented in some Western countries in the so-called Golden Age (1950–1980) of capitalism: in countries like the USA, Germany, France and Great Britain, this control varied between 15% and 25% (Piketty, Yanf, and Zucman 2017, 22).

However, as demonstrated, it was the response to the 2009 crisis when this movement proved concrete, when the state became the financier (via public banks) and executor (via state-owned enterprises) of a US\$589 billion investment package.<sup>19</sup> Clearly, something very different was happening in China that could have been overlooked by analysts in general and Marxists in particular.

As we began to consider the hypothesis put forward and demonstrated here, we suggested that China, and its dynamics of development, was—in a certain way—far from being a variant of liberal capitalism or of state capitalism. For the theoretical possibility of this interpretation, we sought assistance in a Marxist category very little known and/or even used: the category of socioeconomic formation. Through this path of development, citations and demarcation of borders with other interpretations we seek to expose the particularity of this category in the effort to seek the genesis of complex processes. Starting from this category of analysis, we advance in the seat of our argument.

The dynamics of coexistence in “dialectic unity of opposites” between different modes of production was fundamental, mainly because it indicates that the socialist mode of production, represented by the very nature of state political power and of the financial

and productive structure, is dominant among the other modes of production. It is worth noting that we do not work with a prior categories, including that of the existence of “pure socialism.” There is no such thing as “pure socialism” in China, on the contrary. The dynamics of the different modes of production indicates a full and largely contradictory interaction between them. Such contradictions can be expressed in the fact that China lives with contradictions of varying degrees, including social and environmental, among others.

That statement was not enough, however. This NSEF engenders a very particular operating logic, which distinguishes it from the logics of capitalist countries. Five operating logics were presented and exemplified, giving substance to this work’s argument. They are as follows: (1) the different modes of production are not restricted to coexistence, but coexist in the “dialectic unity of opposites”; (2) the law of value is not a simple aspect to overcome under “market socialism,” even though it is part of the beginning of the historical process of building socialism; (3) the existence of two sectors, the state and the private, demands a continuous reorganization of activities between these sectors. This continuous reorganization of activities is mediated by the cyclical emergence of institutions that delimit a continuous reorganization of activities between the state and private sectors of the economy; (4) there is a regularity in this cyclical process of the reorganization of activities between the two sectors. The growth of the private sector does not occur at the expense of a decrease in the role of the state. There is a concrete, strategic replacement of the state, with the state elevating its role in a qualitative way; and (5) planning has justification as an essential operating logic in “market socialism.”

Finally, under the rubric of the “dialectic of Saturn,” we brought up an old debate about the expectations created during the process of building socialism and the value of this healthy polemic to understanding China today. To support this, we also used quotes from classics such as Hegel, Marx and Engels. It has never been so fundamental for us to return to the “classics” to seek explanations for new and complex phenomena.

Clearly, this topic is complex and controversial. We do not deny this. But what this article contains is a first, big step in a well-overdue discussion on China’s development outside the accepted parameters of all the previous sides of the debate. This article presents itself as an alternative, a necessary and controversial outsider.

## Notes

1. The success of Townships and Village Enterprises (TVEs), based on property rights that are difficult to understand, demonstrates that private property *per se* does not guarantee economic dynamism. For more on this debate about TVEs and property rights, see Harry (2001).
2. According to Piketty, Yanf, and Zucman (2017, 4–5),

[...] China moved a long way toward private property between 1978 and 2015, but the property regime of the country is still very different from other parts of the world. In most developed countries, the share of public property in national wealth used to be around 15–25% in the 1960s–1970s and is now close to 0. [...] China has ceased to be communist, but is not entirely capitalist. In effect, the share of public property in China today is somewhat larger than—though not comparable to—what it was in West during the “mixed economy” regime of the post-World War II decades (30% of China’s mixed economy seems to have strengthened since the 2008 financial crisis, while it has dropped again in rich countries). (Cited in Jabbour and Paula 2018, 20)

The recent work of Naughton (2017) follows this same line of reasoning.

- 3. We are grateful for Sergio Barroso's comments on the way Marx treated the SEF category. On the passage cited, we make two observations: (1) According to Sereni ([1971] 2013, 301): It is true that long before this work, the concept (if not the term) of economic and social formation is found in the first complete elaboration of the materialist conception of history that Marx and Engels left us in the 1846 *German Ideology* manuscript. Here, as you can easily see, a good part of volume I is dedicated to a quick passage through world history, whose periodization is justified on the different degrees of development of the productive forces and of property relations, that is, in the way production (*Weise der Produktion*) characterizes different eras. (...) However, the term *Ökonomische Gesellschaftsformation* is missing, as we had warned, in its place, for now, only that of *Gesellschaftsform* (literally "form of society" or "social form"), which soon reappears in the *Grundrisse*, as, also before in many other writings of the years between 1846 and 1857; (2) We tend to agree with Gabriele and Schettino (2012, 22), according to them in the "Preface" the difference between the concepts of economic-social formation and the mode of production is not perceptible: Here, the concepts of SEF and MP are virtually indistinguishable. Yet, room is left for subsequent interpretative approaches that—without undermining the close relationship between the social and the economic spheres which constitutes one of the most fundamental legacies of Marx's thought—tended to differentiate the two concepts, along lines that are consistent with the respective different meanings of the terms "social" and "production" respectively.
- 4. There are those who try to explain China by describing it as a large field of forced labor led by "savage capitalists" within the rules of a certain "Party-State" even an interesting attempt at a "mixed economy." The absolute majority of researches about China existing by the thousands on the shelves of bookstores fail to pay attention to the fact that, in the reality, the construction of an original building is taking place in that country, where elements and institutions from different historical periods appear and re-emerge. We reaffirm here that the only reason for this gigantic process underway in China is to observe it as part of the history of human civilization, it is not a miracle; much less an accident.
- 5. Continuity in the sense of the directions and objectives that brought the CCP to power in 1949, and rupture with the method and forms that since the mid-1950s have come to prevail throughout Chinese social body.
- 6. For more on the analysis of the main mechanisms used for capital concentration and the formation of a domestic capitalist class in China, read Nogueira (2018). For a rationalization similar to that of Nogueira about the influence of domestic capitalists in China, but from the point of view of a geographer, read Lim (2014).
- 7. Its construction is largely based on Lenin ([1921] 1964).
- 8. The plan is to completely eliminate the existence of populations living in such conditions by 2020. It is worth mentioning, for example, that according to the World Bank the percentage of the Chinese population living in conditions of extreme poverty fell from 88% in 1981 to 6.5% in 2012 (World Bank Poverty and Equity Data Portal: <https://povertydata.worldbank.org/poverty/country/CHN>. Accessed on May 15, 2018).
- 9. See "Agriculture in China." *Australian Farmers*, April 12, 2017. <https://farmers.org.au/community/blog/the-sheer-scale-of-agriculture-in-China-12042017.html>. Accessed on April 10, 2018.
- 10. It is very common to associate China as an experience of "state capitalism." This association is a consequence of the separation between politics and economics in the analysis of the process. To us it is a phase of capitalist development in countries where the state plays a great role, but private companies are the dominant formation/structure.
- 11. According to a report by the important American think tank, American Enterprise Institute for Public Policy Research, between 2005 and 2018 China invested US\$1.9 trillion across the five continents. See <https://www.aei.org/china-global-investment-tracker/>.
- 12. For us, "market socialism" is synonymous with what is conventionally called the "primary stage of socialism." We wrote about it in Jabbour, Dantas, and Belmonte (2017).
- 13. For more on the limits of planning under market socialism, read Gabriele (2016).

14. The Chinese case also aligns with the following passage by Rangel:

In all periods of history [...] the economy has always had, alongside the private sector, the public sector. From time to time, the distribution of attributions between these sectors is called into question and [...], we proceed to a redistribution of these attributions between the two sectors. This helps to overcome the crisis and open a new period of development. Now, there is no way to suppose that this dialectic has played out. (Rangel [1957] 2005, 455)

15. We deepen this observation in Jabbour and Paula (2018).  
 16. It is interesting to note the fact—which distinguishes the Chinese developmental experience from other cases—that the emergence of new institutional frameworks does not suffer, during the industrialization process, from discontinuity (Medeiros 2013, 435).  
 17. According to Harnecker:

Without participatory planning there can be no socialism, not only because of the need to end the anarchy of capitalist production, but also because only through mass engagement can society truly appropriate the fruits of its labor. The actors in participatory planning will vary according to different levels of social ownership. (Harnecker 2012, 243)

18. Concerning planning, we offer Rangel's words:

This science and this art have since become the queen of all arts and all sciences of our time, because it is thanks to them that the enormous collection of human knowledge accumulated over the centuries gains new meaning, producing new and surprising results. And, above all, it is thanks to them that human society has gained self-mastery, enabling itself to choose the pace and direction of its march. At last, but not least, in other (and opposite) hand the austerity is one of the main elements of neoliberal economic policy. (Rangel [1957] 2005, 453)

19. This “investment package” was mediated by money created by state-owned banks.

## Disclosure Statement

No potential conflict of interest was reported by the author(s).

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